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November 4, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of Ex Parte Presentation - CC Docket No. 98-147

Dear Ms. Salas:

Yesterday, Tony Epstein, Mark Schneider, Michael Pelcovits, David Porter, Richard Whitt, Chandan Choudhary, Kevin Sievert, and Glenn Grochowski of MCI WorldCom, Inc. ("MCI WorldCom") met with the following Commission personnel in the above-referenced proceeding: Allan Thomas and Greg Cooke of the Commission's Common Carrier Bureau, Network Services Division; Ellen Burton of the Bureau's Industry Analysis Division; Staggs Newman and Charles Iseman of the Commission's Office of Engineering and Technology; Carol Matthey, Daniel Shiman, Jonathan Askin, Jason Oxman, Brent Olson, and Elizabeth Nightingale of the Bureau's Policy and Program Planning Division; Johnson Garrett of the Office of Plans and Policy; Maryanne McCormick of the International Bureau; and Jeff Lanning of the Office of General Counsel.

The discussion concerned issues articulated in initial and reply comments filed by WorldCom in the above-referenced proceedings. In particular, MCI WorldCom explained to the staff that the Commission should: (1) refuse to grant requests by the Bell Operating Companies ("BOCs") for interLATA relief for advanced data services; (2) expand the current collocation rules to give competitors maximum flexibility concerning how and what equipment can be collocated in ILEC central offices; (3) decline to adopt the advanced services affiliate proposal; and (4) refine the current definition of the local loop to encompass the need for competitors to provide advanced services such as Digital Subscriber Line ("DSL").

In addition, MCI WorldCom presented a sample business case analysis demonstrating the types and amounts of faced by CLECs vis-a-vis ILECs in deploying DSL services. A summary of this presentation is attached.

An original and one copy of this letter are hereby submitted to your office

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today, pursuant to the requirements of Section 1.1206(b)(2) of the Commission's rules, in the above-referenced proceeding. Please contact the undersigned if you have any questions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. S. Whitt', written in a cursive style.

Richard S. Whitt
Director, Federal Affairs/Counsel

Attachment

cc: Allan Thomas
Greg Cooke
Ellen Burton
Stagg Newman
Charles Iseman
Carol Matthey
Daniel Shiman
Jonathan Askin
Jason Oxman
Brent Olson
Elizabeth Nightingale
Johnson Garrett
Maryanne McCormick
Jeff Lanning

Purpose of the Study: This analysis was conducted to study the network costs of ADSL service provided by a new entrant into the market. The purpose was to analyze the scale economies in the market and to estimate some of the cost advantages that an ILEC subsidiary would have compared to an independent new entrant.

Categories of Cost: Four categories of costs were analyzed:

- (1) The cost of the systems required for a carrier offering DSL include: the Element Manager and the ATM network data gateway switch.
- (2) Central office costs: including the cost of equipping the collocation space (as well as space rental and power consumption) and installing the common system electronics and power distribution.
- (3) Per customer costs: to include DSLAM costs (both common shelf equipment and line cards), CPE and loop costs (both recurring and non-recurring).
- (4) Transport costs - typically a leased DS3 (or multiple DS3s) connection from the collocation space to the ATM POP of the data service provider. This capacity assumes 500 DSL lines operating at a downstream rate of 1-2 Mbps.

Sources of cost data:

- (1) Equipment costs were estimated based on MCI WorldCom experience.
- (2) Engineering costs were based on MCI WorldCom experience.
- (3) Capital cost annual charge factors and annual expense factors were based on the HAI Model 5.0a.
- (4) Collocation, loop costs, and transport costs were based on the average rates paid by MCI WorldCom for interconnection.

ILEC cost advantages:

The source of the ILEC cost advantage identified in the analysis is:

- (1) The ILEC actually incurs a TELRIC cost for the collocation (both equipment and space rental), loops, interoffice transport and any non-recurring costs provided to the subsidiary, even if the subsidiary pays an internal transfer rate based on the tariffed prices.
- (2) The ILEC will have much lower costs of installing and establishing its collo space because it is already familiar with the plans and operations of the CO. (TELRIC estimates were obtained from the HAI model and the MCI WorldCom collo and NRC models.)

No effort was made to quantify other possible sources of cross-subsidy, such as:

- (1) marketing cost advantage
- (2) benefits that would accrue from equipment transfers

Results: As shown in the table below. The most significant results can be summarized as follows:

- (1) Economies of scale are very significant at the initial period following entry into the market. For example, the cost per customer falls from \$2,000 to \$694 as the number of customers increases from 500 to 10,000.
- (2) The costs per customer for the ILEC subsidiary are significantly below the CLEC (approximately 40-50%) as shown graphically in the chart below.

COs	Cust/CO	Total CLEC Cost/Cust/Yr	Total ILEC Cost/Cust/Yr
5	100	2,000	1,059
5	500	870	512
5	1,000	753	454
5	2,000	694	425

